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SUBJECT: Vietnam's Securities and Capital Markets

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¶1. (SBU) Summary: Vietnam's securities authorities are still struggling with implementation of the new law. Vietnam's new Securities Law (SL) -- in effect since January 2007 -- is not being fully implemented, according to both GVN officials and market participants. Investors, including foreign investors, are still looking to invest, even in unlisted firms with limited disclosure. The downturn in the stock market in March, however, seems to have weakened the immediate case for capital controls, although its use in the future has not been ruled out. Meanwhile, efforts to calm markets will continue, including: registering unlisted public firms in order to improve disclosure, custody, clearing and settlement procedures; increasing the supply of public companies on the exchange; and improving market surveillance.

¶2. (SBU) This is one of five cables reporting on Regional Financial Attache Susan Baker's May 29-June 1 visit to Vietnam. This message reports her findings and impressions of Vietnam's securities and capital markets.

INSTITUTIONAL REFORM

¶3. (SBU) One key component of Vietnam's new securities law is splitting the stock trading centers (in Hanoi and Ho Chi Minh City) from the State Securities Commission (SSC). SSC Deputy Director for Securities Market Development Dr. Nguyen Son explained that the "roadmap" for implementing this part of the SL envisioned this separation within eighteen months of the law (i.e., by June 2008). In May 2007, the Prime Minister approved the "equitization" of the Ho Chi Minh City stock trading center. The new HCMC Stock Exchange (HSE) will be officially launched in July 2007. After this transformation, the HSE will focus on trading of listed equities and the Hanoi securities trading center will focus on over-the-counter stocks and bonds, especially government bonds.

¶4. (SBU) On the bond front, SSC officials said that the MOF is preparing a proposal to launch a primary dealer (PD) network, which may allow banks and insurance companies to become PDs in addition to securities companies. Under this plan, the MOF would oversee the PD network while the SSC would monitor the secondary market. Vietnam intends to follow up its very successful $750 million offshore government bond offering (late 2005) with an additional $1 billion offering soon. MOF officials acknowledge the need to reduce the number of domestic government bond issuances from the current 400 different types, and are working to restructure this by re-opening some issuances and focusing on a few key tenures. MOF officials note the lack of trained staff to improve government debt management.

SSC JUST STARTING TO REIN IN OTC MARKETS

¶5. (SBU) Vietnam has "equitized" approximately 1600 state-owned enterprises (SOEs), selling shares at a discounted price to employees, with allocations determined by the employee's tenure at the company. These shares have then been traded in a thriving OTC market, which some market participants have claimed to be roughly three times larger than the market capitalization of the companies whose shares are publicly listed on the Hanoi and HCMC's securities trading centers. These OTC trades take place privately, usually without involvement from regulated intermediaries, exchanges or custody companies. It is common for private individuals to agree to make a trade -- often meeting through an internet website -- and then to go directly to the company to register the change in share ownership and exchange funds.

¶6. (SBU) A vital part of the GVN's plan to improve investor protection in the OTC market is the registration requirements in the new SL. FinAtt's understanding is this would require all companies with more than 100 owners and $5 million in registered capital to register with the SSC and begin complying with its disclosure standards. This in effect makes publicly-owned but unlisted companies subject to the same disclosure requirements as listed companies. Registered companies would also be required to use official custody companies for clearing and settlement of shares.

¶7. (SBU) According to SSC officials, however, with only one month to go before the official registration deadline, only 100 additional companies have registered. (Note: For comparison: one private consultant estimates there are roughly 450 large public, unlisted SOEs that would be large enough to do a listing, and approximately 1600 SOEs have "equitized" with employees being given shares. End

note.) The SSC is now preparing a proposal to implement the SL's registration requirements, and inform the registered companies of their obligations for improved disclosure and custody procedures. They have also conveyed the new requirements to the various line ministries who oversee the SOEs. If these measures are not effective, the SSC said they would consider imposing sanctions or fines on unregistered companies.

¶8. (SBU) The SSC is also trying to improve its market surveillance capacity. The Prime Minister issued a decision to allow the SSC to create a new functional division for market surveillance, including surveillance of foreign investors. The SSC is working on a proposal to strengthen surveillance with the stock trading centers/exchanges, custody companies and securities companies. It also plans to separate the functions of surveillance and enforcement, and noted training being received from U.S. experts on these topics. Officials also noted the difficulty of tracking foreign ownership of companies due to the use of nominees. Even though foreign ownership in listed companies is capped at 49 percent (30 percent for banks), market participants estimate current foreign ownership is around 23-25 percent of the entire market.

SUPPORT FOR CAPITAL CONTROLS WEAKENS, BUT NOT GONE COMPLETELY
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¶9. (SBU) In February 2007, the Vietnamese government was contemplating the imposition of capital controls to reign in an exploding stock market. The Prime Minister himself made the decision not to impose capital controls at that time, with input from the Ministry of Finance, the State Bank of Vietnam and HSE, among others. In response to FinAtt's questions, officials from the SCC and HSE both acknowledged that the government does not have enough information to determine whether foreign or domestic investors were the primary drivers behind the increasing stock prices. A one-time survey by the SSC estimated that some 260 offshore funds had raised $5 billion specifically to invest in Vietnam, but they were not sure how much of these funds had already been invested. (Note: Other market participants believe some $3.4 billion worth of investments had already been made by funds dedicated to investing only in Vietnam. End note.) None of these

figures takes into account potential investment allocations from funds not solely dedicated to Vietnam. Many officials and market participants expressed concern about the "wall of money" wanting to invest in Vietnam.

¶10. (SBU) As the stock exchange cooled off in March, the perceived need to do something dramatic to take pressure off the stock market seems to have abated. For example, several government officials noted that the decision on the introduction of a short-term capital gains tax to discourage speculation had been postponed until the National Assembly discussion of a larger overhaul of personal income tax, currently planned for 2009. (Note: SSC estimates that 90 percent of trades are by retail investors and 10 percent by institutional investors. End note.) Nevertheless, the government has stepped up announcements of "equitizations" and subsequent listings to increase the supply of securities available for investment on the stock exchange. Moreover, while all government officials we met contend that any decision on capital controls will be in line with the new securities law and Vietnam's WTO obligations, none of them rules out imposing capital controls in the future.

MARKET ACCESS FOR FOREIGN SECURITIES FIRMS

¶11. (SBU) Vietnam agreed to allow 49 percent foreign ownership of securities companies upon accession to the WTO, rising to 100 percent foreign ownership after five years. SSC officials said that they expected to exceed their minimum WTO commitment to allow majority, even 100 percent, foreign ownership of asset management companies before the five-year transition period ends. However, they expect that foreign ownership of securities companies will remain capped at 49 percent for the next five years, before moving in one step to 100 percent.

¶12. (SBU) Comment: The good news is, for the time being, the sense of urgency about needing to cool the stock markets seems to be gone. The bad news is the beneficial parts of the SL are not being implemented fully. More specifically, the lack of consolidated supervision -- and clear interest on the part of banks in providing securities services and related lending -- may put the entire financial system at risk in the event of a major down turn. Thus, aside from the increase in supply of investable securities that is already in train, it is not clear what tools the government would have to dampen any future excessive exuberance. End Comment.

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